



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LEWIS COUNTY
SHERIFF'S SETTLEMENT - 1999 TAXES**

July 3, 2000

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EXECUTIVE SUMMARY

LEWIS COUNTY WILLIAM D. LEWIS, SHERIFF SHERIFF'S TAX SETTLEMENT - 1999 TAXES

July 3, 2000

The Auditor of Public Accounts has completed our audit of the Lewis County Sheriff's Tax Settlement for 1999 property taxes. The Sheriff maintained excellent records that allowed us to efficiently complete the audit. The financial statement presents fairly the Sheriff's taxes charged, credited, and paid as of July 3, 2000. The audit reported only one issue, the Sheriff did not maintain collateral sufficient to protect deposits. There were only immaterial amounts to be collected and paid to settle the account. The end of fieldwork was September 14, 2000, with no other significant items coming to our attention during the audit of the Lewis County Sheriff's Tax Settlement - 1999 Taxes.

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor
Kevin Flanery, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable George M. Plummer, Lewis County Judge/Executive
Honorable William D. Lewis, Lewis County Sheriff
Members of the Lewis County Fiscal Court

Independent Auditor's Report

We have audited the Lewis County Sheriff's Settlement - 1999 Taxes as of July 3, 2000. This tax settlement is the responsibility of the Lewis County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Lewis County Sheriff's taxes charged, credited, and paid as of July 3, 2000, in conformity with the basis of accounting described in the preceding paragraph.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

To the People of Kentucky
Honorable Paul E. Patton, Governor
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Members of the Lewis County Fiscal Court

In accordance with Government Auditing Standards, we have also issued a report dated September 14, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 14, 2000

LEWIS COUNTY
WILLIAM D. LEWIS, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES

July 3, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 235,890	\$ 227,370	\$ 621,055	\$ 272,954
Tangible Personal Property	12,733	13,446	34,313	32,441
Intangible Personal Property				4,932
Fire Protection	5,218			
Franchise Corporation	130,946	131,539	348,576	
Bank Franchise	22,773			
Penalties	2,729	2,657	7,107	3,149
Adjusted to Sheriff's Receipt	100	94	4	
Gross Chargeable to Sheriff	<u>\$ 410,389</u>	<u>\$ 375,106</u>	<u>\$ 1,011,055</u>	<u>\$ 313,476</u>
<u>Credits</u>				
Discounts	\$ 3,251	\$ 3,070	\$ 8,371	\$ 4,027
Exonerations	1,919	1,793	5,054	2,206
Delinquents:				
Real Estate	8,328	8,788	21,688	9,525
Tangible Personal Property	21	18	57	14
Total Credits	<u>\$ 13,519</u>	<u>\$ 13,669</u>	<u>\$ 35,170</u>	<u>\$ 15,772</u>
Net Tax Yield	\$ 396,870	\$ 361,437	\$ 975,885	\$ 297,704
Less: Commissions *	<u>17,154</u>	<u>12,685</u>	<u>39,035</u>	<u>12,940</u>
Net Taxes Due	\$ 379,716	\$ 348,752	\$ 936,850	\$ 284,764
Taxes Paid	<u>379,763</u>	<u>348,502</u>	<u>936,363</u>	<u>284,790</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (47)</u>	<u>\$ 250</u>	<u>\$ 487</u>	<u>\$ (26)</u>

* and ** See Page 4

LEWIS COUNTY
WILLIAM D. LEWIS, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES
July 3, 2000
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	963,658
4% on	\$	975,885
1% on	\$	82,353

** Special Taxing Districts:

Library District	\$	32
Health District		48
Extension District		51
Kinniconick Fire District		119

Due Districts	\$	<u>250</u>
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The accompanying notes are an integral part of the financial statement.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENT

July 3, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 10, 1999, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$38,159 of public funds uninsured and unsecured.

LEWIS COUNTY
 NOTES TO FINANCIAL STATEMENT
 July 3, 2000
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 10, 1999.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 1,000,000
Uncollateralized and uninsured	<u>38,159</u>
Total	<u>\$ 1,038,159</u>

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1999. Property taxes were billed to finance governmental services for the year ended June 30, 2000. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 26, 1999 through April 30, 2000.

Note 4. Interest Income

The Lewis County Sheriff earned \$2,465 as interest income on 1999 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 1999 taxes, the Sheriff had \$2,788 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENT AND RECOMMENDATION

LEWIS COUNTY
WILLIAM D. LEWIS, SHERIFF
COMMENT AND RECOMMENDATION

July 3, 2000

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On December 10, 1999, \$38,159 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

This item has been addressed. The bank is increasing coverage with an additional \$250,000.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

None.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable George M. Plummer, Lewis County Judge/Executive
Honorable William D. Lewis, Lewis County Sheriff
Members of the Lewis County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Lewis County Sheriff's Settlement - 1999 Taxes as of July 3, 2000, and have issued our report thereon dated September 14, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lewis County Sheriff's Settlement - 1999 Taxes as of July 3, 2000, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lewis County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable George M. Plummer, Lewis County Judge/Executive
Honorable William D. Lewis, Lewis County Sheriff
Members of the Lewis County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 14, 2000

